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TRADE POLICIES, INVESTMENT AND ECONOMIC PERFORMANCE OF DEVELOPING COUNTRIES IN THE 1980s

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Preface

This document is an extended version of a study, parts of which have been included in the Trade and Development Report 1989, Chapter 5, and in Factors affecting export of manufactures and semi-manufactures from developing countries, TD/B/C.2/229.

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Contents

		Paragraphs
	INTRODUCTION	1 - 6
I.	COUNTRY PERFORMANCE	7 - 25
	A. Export of volume and terms of trade	14 - 18
	B. Exports and general economic performance	19 - 25
II.	THE ROLE OF INVESTMENT AND IMPORTS IN SUPPLY CAPABILITIES	26 - 43
	A. Investment	30 - 37
	B. Imports and other constraints on investment	38 - 43
III.	TRADE POLICIES AND EXCHANGE RATE ADJUSTMENTS	44 - 81
	A. General tendencies	45 - 52
	B. The importance of the level of development and the initial industrial base (supply capabilities)	53 - 66
	(i) Import régime	53 - 55
	(ii) Devaluation and stability of the exchange rate	56 - 66
	C. Trade régimes of Asian NICs and other fast exporters of manufactures	67 - 81
	(i) Mixed policies of import substitution and export promotion	68 - 69
	(ii) Selectivity	70 - 78
	(iii) Other factors	79 - 81
IV.	CONCLUSIONS	82 - 86
ANNEX	Tables A.1 to A.3	

INTRODUCTION

1. It is sometimes argued that developing countries should liberalize their trade régimes in order to expand production and exports of manufactured goods and thus enhance their economic development. 1/ While there is no general agreement on the details of trade liberalization measures, their main elements may be identified as follows:

- Removal of import quotas, import licensing and other qualitative restrictions or their conversion into tariffs;

- Reduction of the level and the variability of import tariff rates;

- Compensatory devaluation of the local currency.

2. The proponents of this line of argument would argue that, generally speaking, these measures tend to reduce government intervention in foreign trade and remedy the bias against exports as opposed to domestic sales. The assumption is that quotas and other quantitative restrictions interfere with the functioning of the price mechanism. High, prolonged tariff protection would involve allocative inefficiencies; discriminatory tariffs would create distortion and impede the growth of competitive firms and industries. According to this argument, currency devaluation is necessary in order to change the incentive structure in favour of tradeable goods over non-tradeable goods, and to increase the competitiveness of exports, which in many developing countries is constrained by "over-valued" exchange rates. Moreover, devaluation is also expected to compensate for the reduction in relative prices of importables caused by tariff reductions. 2/ So as to illustrate these points, Asian NICs, particularly South Korea, are often cited as examples of countries with liberal trade régimes which have followed this course of action.

3. The performance of developing countries in the 1980s will be examined in the light of the above-mentioned argument. During that period a large number of developing countries had undertaken trade liberalization measures and exchange rate adjustments; a sample of such developing countries has been chosen for the purpose of this study. Section I presents a review of the export and general economic performance of the sample countries. While their export and economic performance varied, few newcomers had joined the list of successful exporters of manufactured goods. Countries with a higher initial level of development, a previously established industrial base and manufacturing export capabilities meanwhile continued to record high export growth.

4. Rapid expansion of supply capability is a necessary condition for rapid export expansion, although this is not the only prerequisite. Rapid (or slow) export expansion may not necessarily lead to a good (or sluggish) general economic performance. Indeed good economic performance has sometimes been achieved without rapid export expansion. It can also be argued that rapid growth of exports of manufactured goods may have been achieved at the cost of some deterioration in the terms of trade and in certain cases at the cost of availability of supply to the domestic market and of de-industrialization. Many low-income countries have suffered from both de-industrialization and negative or sluggish export growth.

5. Section II takes up the role of investment and imports in the expansion of supply capabilities. It was found that intercountry differences in economic performance seem to be noticeably affected by differences in investment rates. Furthermore, investment can be constrained by a lack of imports. In cases where policies to drive exports have not been accompanied by the expansion of investment, export growth cannot be sustained.

6. Section III explores the association between trade liberalization and exchange rate policies, on the one hand, and export and economic performance, on the other, as this link is not readily evident. The impact on performance of trade liberalization and devaluation tends to vary according to the supply capabilities of the countries, denoted by level of development, initial industrial base, and nature of policies adopted. In low-income countries, implementation of the aforementioned liberalization measures and devaluation had not only failed to stimulate exports of manufactured products, but also accompanied by de-industrialization and even heavier dependence on exports of primary commodities. Expansion of supply capacity seemed to be more important than the type of trade policies adopted by these countries. It will also be argued that the experience of Asian NICs is not that of a liberal trade régime. The final section offers some conclusions. One important limitation of this study should be mentioned, namely the absence of a detailed examination of the importance of technological development in economic performance and adjustment policies.

I. COUNTRY PERFORMANCE

7. The performance of developing countries has been analysed on the basis of a sample of 32 countries. The sample chosen includes countries in different regions, with different levels of development, different industrial base, debt burden and different initial trade policies as well as variations in terms of attempts at trade liberalization and exchange rate adjustment.

8. Because of the inclusion of re-exports in the data on exports, in making the selection of countries two thresholds were used as cut-off points: countries with manufacturing exports of less than 75 million United States dollars and those with a ratio of manufactures to total exports of less than 5 per cent. Nevertheless, there were some exceptions to this rule; a few countries above these thresholds were also included so as to gauge the response of the manufacturing sector of highly commodity-dependent countries to trade policy reform. They incude Senegal, Ecuador, Sierra Leone, Bolivia, Ghana and Nigeria.

9. The data used are derived from World Bank sources and the most up-to-date information available in UNCTAD; data are based on a UNIDO definition of manufactured goods. Accordingly, manufacturing includes processed and semi-processed commodities. Their inclusion may inflate growth of exports of manufactured goods in cases where value added in processing is slight and the relative importance of exports of these products has increased. In order to calculate exports in real terms as well as the terms of trade, the World Bank unit value indices of exports have been employed. As these indices appear to be based on rough estimates, they should be regarded with a certain degree of caution. Furthermore, for countries where exports from Export Processing Zones (EPZ) constituted a significant amount of total exports of manufactured goods (e.g. Mauritius, Malaysia and, to some extent, Mexico) the figures for growth of exports may be inflated. This could happen where the import-intensity of EPZ exports (usually highly import-intensive) has increased over time. For example, in the case of Mauritius, the import-intensity (excluding imports of capital goods) of EPZ exports rose from 56 per cent in 1982 to 68 per cent in 1986. 3/

10. In order to evaluate relative export performance, in the literature various indicators have been employed. They include, for example, indices of revealed comparative advantage, competitiveness diversification, etc. For the purpose of this study, growth rates of exports in real terms (henceforth referred to as export volume), net barter terms of trade and income terms of trade are examined. The overall net barter terms of trade, may be calculated using the unit value of total imports of the country as a deflator. For manufactured goods, the unit value indices of exports of manufactured goods of developed market-economy countries were employed as this was the only index available. These indices include intra-trade of developed market-economy countries and their trade with socialist countries.

11. Data on export volume provide some indication of the relative abilities of countries to export (but not necessarily their capacity to produce) irrespective of the gains attained, costs involved and the impact of exports on their general economic performance. When expansion of export volume is also accompanied by expansion of output, exports can have a positive impact on real variables such as employment, etc. Changes in the net barter terms of

trade indicate the distribution of gains from trade between exporter and importer. The income terms of trade (the product derived by multiplying the net barter terms of trade indices by export volume) indicates the relative capacity to purchase relevant import items.

12. In order to show the interrelations between exports of manufactured goods, supply capabilities and general economic performance, three main indicators have been chosen: growth of manufacturing value added (MVA), growth of GDP, and changes in consumer price indices, leaving aside such questions as income distribution, allocative efficiency, etc. Figures on growth of MVA and GDP in particular could also be used to show whether export expansion has been accompanied by growth of production in relevant cases.

13. The data necessary for the analysis of the performance of countries are shown in table 1. The countries are classified by three main categories, according to their rate of growth of export volume: High (A), low or negative (B) and moderate (C). Within each category, countries are grouped according to their growth of MVA and rate of inflation in terms of consumer prices. Within each group, countries are ranked according to their rate of growth of volume of exports of manufactured goods. For export volume of manufactured goods, MVA and GDP, growth rates less than the estimated average for the market-economy countries (henceforth in this section referred to as "world") were considered low (for a definition of moderate and high growth rates see footnote * (asterik) to table 1). For inflation, the choice of cut-off points is somewhat arbitrary.

A. Export volume and terms of trade

14. According to table 1, only a minority of countries enjoyed a high rate of growth of exports of manufactured goods, i.e. only a few increased their market share for those products internationally. In terms of volume, around a third of the sample countries (11 out of 32) showed a high growth rate of exports of manufactured goods (category A) while three countries showed moderate growth rates (category C). Half of the remaining sample (category B) suffered from negative growth rates while the other half showed a positive rate but less than the world average.

15. With the exception of Pakistan, countries in category A were among the successful exporters of the 1970s. The growth rate of exports of the majority of this group decelerated in the 1980s, presumably because of the slow-down in international trade. Indonesia, Turkey, Mexico, Pakistan and Venezuela were the only countries where exports of manufactured goods accelerated during the period.

16. The majority of countries in category A already enjoyed a relatively higher level of development and industrial base at the beginning of the period. These countries were found in South and South-East Asia. In contrast, the majority of countries in category B were among those with a lower initial level of development and industrial base, i.e. lower supply capabilities. These were found in Africa and Latin America. Moreover, many of them ranked among the heavy debtor countries.

Table 1

Average annual growth rates of exports, output, terms of trade, purchasing power and consumer prices of sample countries (1980-1987) */

Countries	Export volume a/		Net barter Terms of trade		Purchasing power		Value added a/		Consumer price index
	Manufactures	Total	Manufacture e/	Total	Manufactures	Total	Manufactures	GDP	
A. High export growth:									
a. High output f/ growth and low or moderate inflation									
Indonesia	43.7	2.4	- 3.8	- 4.4	39.9	- 2.2	7.5	3.8	10.3
Malaysia	16.9	9.0	- 2.1	- 4.0	14.9	5.0	6.7	4.7	4.0
Korea	14.8	14.8	- 2.1	0.8	12.7	14.0	10.9	8.7	8.9
Sri Lanka	14.0	5.7	- 1.8	- 2.5	12.2	3.2	6.2	3.9	12.8
Mauritius	13.7	11.1	- 0.5	- 7.7	13.2	3.4	11.2	6.2	11.3
Thailand	13.6	11.4	- 2.9	- 2.0	10.7	9.4	6.1	5.7	6.1
Pakistan	12.8	9.0	- 2.2	0.0	10.6	9.0	9.1	6.8	7.0
Average a/	18.5	9.1	-2.2	-2.8	16.3	6.0	8.2	5.7	8.6
b. high output growth and very high inflation									
Turkey	42.9	22.5	- 1.7	0.4	41.2	22.1	8.4	5.6	47.2
c. Moderate output growth and moderate inflation									
Venezuela	19.1	- 1.4	- 2.5	- 6.5	16.6	- 7.9	2.7	0.6	14.6
d. Low output growth and low inflation									
Morocco	15.2	3.2	- 2.6	1.1	12.6	2.1	1.6	2.8	8.8
e. Low output growth and very high inflation									
Mexico	23.8	8.7	1.4	- 4.0	25.2	4.7	0.5	1.1	69.5
Average for A	-21.0	8.1	-1.9	-2.6	19.1	5.7	6.4	4.6	18.2
B. Low or negative export growth:									
f. High output growth and low or moderate inflation									
India	2.6	4.0	2.4	2.0	0.2	2.0	8.3	4.9	10.3
g. Moderate output growth and low or moderate inflation									
Bangladesh	4.9	5.5	-1.6	0.7	3.3	4.8	3.1	4.0	11.7
Singapore	4.2	6.9	1.3	0.4	2.9	6.5	4.9	6.0	3.0
Kenya	1.4	- 2.2	- 3.3	- 1.0	- 1.9	- 3.2	4.4	3.5	11.2
Average	3.5	3.4	- 1.2	- 0.3	1.4	2.7	4.1	4.5	8.6
h. Moderate output growth and high inflation									
Columbia	- 3.1	8.1	2.8	- 4.2	- 0.3	3.9	3.1	3.2	22.6

Table 1 (continued)

Countries	Export volume a/		Net barter Terms of trade		Purchasing power		Value added a/		Consumer price index
	Manufactures	Total	Manufacture e/	Total	Manufactures	Total	Manufactures	GDP	
i. Low or negative output growth and high or very high inflation h/									
Ghana d/	2.9	- 0.9	- 1.2	- 1.7	1.7	- 2.2	1.0	1.2	53.3
Yugoslavia	2.6	1.7	0.8	3.5	1.8	5.2	2.7 b/	0.9	60.0
Costa Rica	2.2	3.4	- 0.5	- 2.1	1.7	1.3	-	1.4	29.2
Chile	1.4	4.2	- 1.1	- 2.2	0.3	2.0	1.3	1.5	22.8
Nigeria c/	1.1	- 7.1	- 0.8	- 7.1	0.3	0.0	1.0	- 2.0	15.3
Bolivia c/,d/	- 0.3	- 0.5	- 2.6	- 8.6	- 5.6	- 9.1	- 5.5	- 1.6	1725.0
Côte d'Ivoire	- 1.5	2.1	- 0.5	- 0.8	- 2.0	- 1.4	- 2.0 i/	2.4	6.9
Uruguay	- 2.2	3.0	1.1	- 0.3	- 1.1	2.7	- 0.6	- 0.5	55.0
Peru	- 2.5	- 1.0	- 2.2	- 5.0	- 4.7	- 6.0	3.0	2.3	93.4
Argentina	- 3.8	- 0.8	1.2	- 2.8	- 2.6	- 3.6	- 0.7	- 0.6	279.3
Jamaica	- 4.1	- 3.1	- 0.5	0.2	- 4.6	- 2.9	2.2	1.0	16.7
Ecuador c/,d/	- 6.9	3.1	4.4	- 5.7	- 2.5	- 2.6	0.8	1.1	25.7
Sierra Leone c/,d/	- 6.7	- 5.5	- 0.5	- 0.9	- 7.2	- 6.4	2.1	0.3	66.8
Average	- 1.7	- 0.1	- 0.2	- 2.6	- 1.9	- 0.6	0.28	0.5	188.4
Average for B	- 0.4	1.1	- 0.04	- 2.1	- 1.2	0.4	1.1	1.6	139.3
C. Moderate export growth:									
j. High output growth and low inflation									
Senegal	7.2	6.8	- 0.5	- 0.7	6.7	6.1	5.2	3.7	8.8
k. Low output growth and high inflation									
Philippines	5.3	-0.9	0.6	-0.02	4.7	- 0.9	0.1	0.5	16.2
l. Low output growth and very high inflation									
Brazil	6.4	6.2	- 0.2	0.1	6.2	6.3	1.5	2.9	153.4
Average for C	6.3	4.0	- 0.03	- 0.2	5.9	3.8	2.3	2.4	59.5

Sources: Based on World Bank's Data Bank and World Tables, except for the consumer price indices and the unit value indices of manufactured goods which are based on IMF, IFS, various issues and on UN Monthly Statistical Bulletin, various issues, respectively.

a/ In constant 1980 prices.
b/ 1980-1986.
c/ Exports of manufactured goods constitute less than 5 per cent of total exports.
d/ Exports of manufactured goods are less than 75 million.
e/ The export unit value deflated by the unit value of exports of manufactured goods from developed market economy countries.
f/ Manufacturing value added (MVA) only.
g/ All averages are simple ones.
h/ Côte d'Ivoire is also included despite its low inflation because of other common characteristics.
i/ The industrial sector.

*/ The notations for percentage growth rates are as follows:

Exports: high: more than 10; moderate: between 10 and 5; low: less than 5;
MVA : high: more than 5; moderate: between 5 and 3; low: less than 3;
Consumer prices: very high: more than 30; high: between 30 and 15; moderate: between 15 and 10; low: less than 10.

17. The fast expansion of export volume in the case of category A countries was not achieved without cost. On balance, countries in this group suffered more than those in category B from deterioration in the net barter terms of trade of their manufacturing exports. The simple average annual rate of decline in net barter terms of trade was 1.9 and 0.04 for categories A and B, respectively. Moreover, except for Mexico, no country in category A showed a positive change in the terms of trade. Conversely, 7 out of 18 countries in category B enjoyed improvement in their terms of trade of manufactured goods. 4/

18. As a result of significant deterioration in their net barter terms of trade, the performance of countries in category A in terms of purchasing power of exports of manufactured goods was not as impressive as their performance in terms of export volume. None the less, they were still outstanding. Moreover, excepting Venezuela and Indonesia, which suffered severely from a drop in petroleum prices, the combination of fast growth rate and large share of exports of manufactured goods in total exports contributed to significant improvement in their overall income terms of trade. Such performance stands in sharp contrast to that of certain countries in category B, mostly group i, which suffered from both falling volume and declining net barter terms of trade of both manufactured goods and total exports. As a result their income terms of trade fell significantly. On balance, countries in category A showed significantly better export performance despite their higher loss in net barter terms of trade. Most of them were found among the Asian countries which had also shown high export performance in the 1970s as well.

B. Exports and general economic performance

19. With regard to the association between exports of manufactured goods, total exports and general economic performance, good (or, conversely, sluggish) export performance was not necessarily associated with good (or sluggish) economic performance. It is of course true that for the majority of countries in category A, their high export performance was accompanied by fast output expansion (both manufactures and GDP) and price stability, although no cause and effect link has been established. If anything, a claim could be made that their supply capabilities had contributed to sustainability of export growth in these countries in the 1970s and 1980s.

20. In some countries, rather than being an engine of growth, exports of manufactured goods were accompanied by little growth of output and by rising inflation, Mexico being a notable example of this occurrence. To varying degrees Morocco and Brazil also showed a similar pattern. Expansion of exports of manufactured goods was accompanied in such cases by de-industrialization, as will be further discussed below. In the case of India and other countries in category B, rapid or moderate growth of MVA and GDP and reasonable price stability were achieved without fast export expansion. A comparison of groups a, f and i (table 1) indicates that rapid supply expansion was not necessarily accompanied by rapid export growth, implying that other conditions are also required for export expansion to take place.

21. Twelve of the 32-country sample, most in category B.i (although Mexico and Morocco are two notable examples in category A) have shown a certain degree of de-industrialization in the 1980s, meaning that the share of MVA in

GDP had fallen. In some countries such a decline was accompanied by negative rates of growth of MVA and GDP (e.g. in Bolivia, Uruguay, Argentina); in some others, MVA expanded at a very slow rate (Mexico, Morocco, Bangladesh, Colombia, Philippines, Brazil, Ghana, Chile and Ecuador). 5/

22. Finally, in 13 out of 18 countries in category B, their dependence on exports of primary commodities had also increased in the 1980s, that is, the importance of primary commodities in total exports had increased because of slow growth of exports of manufactures. Seven of these countries (Chile, Uruguay, Argentina, Jamaica, Ecuador, Colombia and Bangladesh) were among those whose share of MVA in GDP had fallen as well (see table A.1 for the relevant ratios).

23. To sum up, good economic performance has been achieved both with and without fast export expansion. Supply capabilities have played an important role in successful exportation. There appears to be a significant association between initial level of industrialization and export expansion. In a number of countries, particularly low-income ones, slow export growth was accompanied by de-industrialization.

24. The intercountry and interregional differences in export pattern and general economic performance give rise to the following questions. Why did those countries with a high initial level of development and industrial base (i.e. countries with higher supply capabilities) and the Asian countries continue to perform better than other countries? Why did countries with a low industrial base, particularly those in Africa, fail in terms of both export and "general economic performance"?

25. While, a priori, a list could be made of a number of external and internal factors which have influenced such a divergence, the remainder of this study will concentrate on a few main factors: investment and imports; trade policies and exchange rate adjustments.

category A, where devaluation was associated with high export performance, higher export performance was also associated with higher terms of trade losses (see also table 1 and section I above).

57. Albeit inconclusive, the literature on the impact of devaluation on exports of developing countries explains to some extent the case of low-income countries; it does not, however, fully explain the case of higher income developing countries for the 1980s. 32/ For these countries, the impact of import compression must be analysed. In order to analyse the impact of devaluation on the export performance of developing countries, three issues have to be considered: (a) the extent to which devaluation of the nominal exchange rate translates itself into depreciation of the real exchange rate, i.e. the stability of the exchange rate; (b) the response of supply and demand to real exchange rate devaluation; and (c) the terms of trade effects. In such an analysis, a distinction should be made between short-term and medium-term impacts; between manufactured goods and primary commodities, between more developed and less developed countries and between devaluation by one single country and that by a number of countries.

58. Leaving aside import compression, the direct effects of devaluation on domestic prices depend on the extent of devaluation, the import intensity of output, and the price elasticity of imports. Moreover, further price increases could be entrained by the indirect impact of devaluation if it leads to an upward wage-price spiral, particularly in cases where wage indexation prevails, as for example in Brazil.

59. In low-income countries in category B, such as Ghana, Nigeria, Bolivia, Sierra Leone, et al., so as to achieve a certain rate of real exchange devaluation, a large devaluation of the nominal exchange rate was required (see table A.3) because devaluation had led to inflation. In their output and export structure these countries were fairly rigid with respect to primary commodities. In the short-run, import price elasticities of demand and export price elasticities of supply are low. Moreover, the price of primary commodities is demand-determined (in the international market) and denominated in foreign currencies. Prices are not (in terms of foreign currency) altered by devaluation by an individual (small producer) country. Hence, for them devaluation does not stimulate external demand unless a number of countries producing the same commodity act in concert (or devalue for the same period), which was the case in the 1980s.

60. The price elasticity of demand for a primary commodity being low, 33/ a large devaluation (by a number of countries) is required for a small volume expansion. This would lead to a decline in international prices (the terms of trade effect), thus partially offsetting the impact of any volume expansion. Hence even larger devaluations would be required in order to increase the export value. A large devaluation, however, tends to result more in inflation than in output expansion, both for the primary and the secondary sectors. 34/ While normally short-run supply elasticities are higher in the manufacturing sector, this is not the case in countries where the industrial base is small and where production technology is at a preliminary stage.

61. In those South-East Asian countries with a higher level of development, broader industrial base, skilled manpower and developed infrastructure, particularly those with considerable capital goods and manufacturing export capabilities, a small change in the nominal exchange rate was sufficient in

II. THE ROLE OF INVESTMENT AND IMPORTS IN SUPPLY CAPABILITIES

26. As mentioned in the previous section, rapid expansion of exports has not in all cases been accompanied by the necessary expansion of supply capabilities of the exporting countries involved. The long-run sustainability of exports depends, however, on the expansion of supply capabilities. Several factors are crucial to the development of this capacity. They include technological abilities, institutional and organizational factors, productivity growth, marketing capabilities and rates of capital accumulation. Since investment is the key in most cases, this section will concentrate on the interrelation between investment, on the one hand, and supply capability and economic performance, on the other hand. Furthermore, some of the factors which constrain investment will be examined.

27. The interrelation between investment and export is complex. Investment is one of the main factors in the development of supply capabilities for producing exports as well as satisfying domestic consumption. Investment is necessary for maintaining, expanding and/or adjusting the productive structure in the manufacturing sector. It is also necessary for the expansion of related back-up services and industrial infrastructure. In the case of countries at early stages of industrialization, the main role of investment is that of establishing and developing the industrial base. For other developing countries, investment is also essential for undertaking structural changes in the industrial base in order to respond to or create new opportunities in the international market. Indeed, it has been shown that structural changes within the manufacturing sector have played a significant role in export performance of the "NICs" and that investment has been the key macro-economic variable facilitating such structural change. 6/ Investment also helps in responding to technological changes, thus raising the capacity to maintain or improve competitiveness in the international market. 7/

28. Growth of exports may have a positive or negative impact on investment, depending on the circumstances. Through their "income (generating) effects", exports can raise the level of savings and act as a stimulus to investment in the same way that output does in "accelerator" theories of investment. 8/ Through their "supply effect" or "vent for surplus effect", exports ease supply bottle-necks arising from natural and/or technical limits through provision of the foreign exchange necessary to cover imports or production inputs. Although the domestic supply of raw materials, including energy, may be limited by natural factors, the capital goods and intermediate inputs necessary for investment and capacity utilization are often constrained in developing countries by limited technological capacity. Moreover, imports ease inflationary pressures by increasing the supply of wage-goods, which in turn contribute to the competitiveness of domestic products for a given exchange rate in both international and internal markets. In essence, imports act as a "joker" of growth. 9/ The more rigid the structure of production, the more important the role of imports (and for that reason, the more the important role of foreign exchange) in investment and the development process of developing countries.

29. However, under certain circumstances, exports can be detrimental if achieved at the cost of investment. Such circumstances may arise when an export drive policy subtracts resources available for domestic investment. 10/

This is the case for example when domestically produced capital goods and inputs are diverted from domestic use to exports, or when resources are diverted from production of consumer goods towards exports. The negative impacts can be further aggravated by the full, or partial, absence of "supply effects", as may be caused by the import compression necessary to repay foreign debts. Import compression affects not only the growth of investment but also the level of capacity utilization, thus impinging on the level of output in sectors and industries dependent on imports for their production processes.

A. Investment

30. The data on investment and domestic absorption in real 1980 prices are shown in table 2. The countries are classified in the same way as in table 1 although they have been regrouped within each category according to their MVA performance. Disaggregated data on investment in the manufacturing sector of the sample countries were unfortunately not readily available; hence, the data on growth of total gross domestic investment, in real terms, were taken as a rough indicator of the growth of gross domestic investment in that sector. Obviously investment in other sectors, particularly infrastructure and education, also facilitates growth of MVA. Hence, to that extent it would have been relevant for the purpose of this study. The data on domestic absorption, i.e. the sum of investment and consumption in real terms, have been taken as indicators of the volume of total domestic supply, i.e. GDP plus imports minus exports. Since this study is concerned with growth in investment over a period of eight years, the lag between investment and production has been disregarded although consideration of the lag factor would give further support to the argument.

31. According to table 2, differences in growth of MVA, in various categories and groups may be explained, to a large extent, by differences in investment-GDP ratios in the 1980s and/or changes in the previous decade. This confirms the observation made in section I of this study regarding the importance of initial supply capabilities. There was also a high correlation coefficient between growth in investment and growth in MVA in the 1980s. 11/ High or moderate expansion of MVA and GDP in the 1980s (table 1), despite a low or negative growth rate of investment in certain countries, (e.g. Sri Lanka and Malaysia in category A, and India and Kenya in category B) may be attributed to the capacity created as a result of investments made in the previous decade.

32. In contrast, the association between exports and investment does not seem to be always strong nor does the estimated correlation coefficient for the sample countries appear particularly significant. 12/ According to table 2, Asian countries in category A have, on balance, shown a higher growth rate of investment than others. 13/ Moreover, the poor export performance in most countries in category B has been accompanied by poor investment performance. Nevertheless, in a number of cases in category A, rapid export growth has been accompanied by negative investment growth, e.g. Mexico, Sri Lanka and Morocco, or slow growth in investment, e.g. Venezuela, Malaysia and Senegal. Similar cases of negative investment and positive (though slow) growth of exports may be found in other categories (e.g. Brazil and Philippines in category C, and Uruguay, Nigeria and Kenya in category B).

Table 2

Average annual growth in the volume of exports of manufactured goods, investment and domestic absorption, and investment-output Ratios for sample countries a/

(1970 - 1987)

Groups	Countries b/	Growth rates (1980-1987) Exports	Gross domestic investment	Domestic absorption	Investment / GDP Ratios 1969-1971	1979-1981	1985-1987
	Category A						
		High output e/ growth (a+b)					
a	Indonesia	43.7	11.3	6.5	14.0	30.9	33.5
	Malaysia	16.9	1.4	1.0	20.7	30.6	25.0
	Korea (Rep.)	14.8	10.0	6.9	25.4	33.3	32.7
	Sri Lanka	14.0	- 4.3	3.6	14.3	30.4	18.7
	Mauritius	13.7	14.7	5.9	21.6	26.0	26.9
	Thailand	13.6	4.1	4.4	28.3	27.0	23.3
	Pakistan	12.8	7.2	5.3	20.5	17.9	18.3
b	Turkey	43.0	5.2	5.0	19.0	21.5	21.1
	Average	21.5	6.2	4.8	20.4	27.1	24.9
		Moderate output growth					
c	Venezuela	19.2	1.3	0.0	18.4	27.6	19.7
		Low output growth (d+e)					
d	Morocco	15.2	- 2.6	1.9	20.5	22.8	16.3
e	Mexico	23.8	- 4.9	- 0.7	20.5	26.8	16.7
	Average	19.5	- 3.8	0.6	20.5	24.8	16.5
	Average A	21.0	4.0	3.6	20.2	26.7	22.9
	Category B						
		High output growth					
f	India	2.6	4.0	4.9	19.1	24.2	22.9
		Moderate output growth (g+h)					
g	Bangladesh	4.9	4.1	4.1	14.1	13.5	15.1
	Singapore	4.2	4.5	5.0	41.7	45.1	41.8
	Kenya	1.4	- 0.2	1.7	37.8	27.2	19.5
h	Colombia	- 3.1	1.6	2.4	19.3	19.4	16.9
	Average	1.9	2.5	3.3	28.2	26.3	23.3
		Low or negative output growth					
i	Ghana c/	2.9	3.7	1.2	8.6	5.7	5.7
	Yugoslavia	2.6	nil	0.1	36.8	40.8	37.1
	Costa Rica	2.2	0.1	1.2	19.5	22.9	20.3
	Chile	1.4	6.8	0.4	19.3	20.5	15.1
	Nigeria c/	1.1	- 8.4	- 1.3	12.4	20.8	10.0
	Bolivia c/	- 0.3	- 13.7	- 1.0	20.7	15.5	4.7
	Côte d'Ivoire	- 1.5	- 8.4	- 0.5	16.6	24.3	9.9
	Uruguay	- 2.2	- 8.0	- 1.3	9.9	16.8	8.1
	Peru	- 2.5	2.2	2.2	21.5	26.9	19.9

Table 2 (continued)

Groups	Countries b/	Growth rates (1980-1987) Exports	Gross domestic investment	Domestic absorption	Investment / GDP Ratios 1969-1971	1979-1981	1985-1987
	Argentina	- 3.8	- 7.2	- 1.2	20.6	20.4	11.1
	Jamaica	- 4.1	- 3.2	- 1.8	35.8	17.1	16.6
	Ecuador c/	- 6.9	- 3.3	nil	25.2	24.3	17.0
	Sierra Leone c/	- 6.7	- 4.6	- 4.0 d/	20.0	16.0	11.2
	Average	- 1.7	- 3.0	- 0.5	20.5	20.9	13.7
	Average B	- 0.4	- 1.5	0.6	22.1	22.3	16.3
	Category C						
		High output growth					
j	Senegal	7.2	2.0	2.5	17.6	15.5	13.7
		Low output growth (k-i)					
k	Philippines	5.3	- 7.5	- 0.1	23.3	30.6	13.2
l	Brazil	6.4	- 1.2	2.1	21.9	21.8	16.8
	Average	5.9	- 4.4	1.1	22.2	26.2	15.0
	Average C	6.3	- 2.2	1.5	20.9	22.6	14.6

Source: As table 1.

a/ All variables are in 1980 constant prices.
b/ Category and country grouping are the same as table 1.
c/ Exports of manufactured goods are less than 5 per cent of total exports.
d/ 1980-1986.
e/ MVA.

33. Such cases should not, however, imply that investment is not necessary for export growth. They may simply mean that exports have been achieved at the cost of investment. In fact, in almost all countries exports have been, albeit to varying degrees, accomplished at the cost of availability of goods for domestic consumption and/or investment. This may be inferred from the rate of growth of domestic absorption (domestic supply) which has been in fact less than the rate of growth of total output (GDP) and of value added in manufactured goods, not to mention the rapid rate of inflation. Generally speaking, the higher the debt burden, the higher the tendency to divert domestic supply to exports. Moreover, comparisons of data on growth of investment and domestic absorption (i.e. the sum of investment and consumption) indicate that in the above-mentioned cases like that of a number of other countries in category B (including some of those which show negative export growth rates), investment has, however, suffered more than consumption.

34. In all the countries considered, export expansion together with import compression has been part of the policy package intended to help in repaying debt. Mexico is one such example. For instance, in order to finance a current account deficit of $US 14 billion in 1981, Mexico had to run, in 1987, a surplus of $US 3 billion in its current account; and $US 8.4 in its account in trade in goods. As a result, in real terms the total availability of goods to the domestic market and gross domestic investment declined by an annual average rate of 0.7 and 4.9 per cent, respectively, during the period 1980-1987. In the particular case of manufactured goods, net trade (M-X) at constant 1980 prices declined by an annual average rate of over 20 per cent from $US 13.4 billion to $US 193 million over the period in question. 14/ Such a decline was obviously not caused by import substitution because there was little expansion in MVA. Hence, it must have been the result of import compression and export expansion. Import compression will be dealt with later. As for the relationship between exports and investment, it should be mentioned that domestic production of capital goods might very likely have been diverted to other products for the sake of export expansion. In fact, on the basis of UNIDO data, between 1980 and 1986 the share of main capital goods in MVA declined from 17 per cent to 13 per cent. 15/ In absolute terms, the production of capital goods dropped from $US 7.5 billion to $US 4.3 billion; in Brazil, the relevant figures showed a decline from 27 to 13 per cent and from $US 19 million to $US 18 million, respectively, over the same period. 16/ The case of Mexico would indicate that export expansion has withdrawn resources from investment.

35. The issue of investment raises the question of the future sustainability of export growth in a number of fast exporting countries in category A, leaving aside countries in other categories. Unless investment expands, these countries will eventually develop supply problems. In almost all the countries considered, (with the exception of Turkey, Indonesia, Pakistan, South Korea and Mauritius), investment-ouptut ratios had fallen sharply. In the case of Turkey, although total investment had expanded in the 1980s, the share of investment in the manufacturing sector declined despite the country's rising share of output and its very high growth rate of exports. Investment in production capacity did not keep pace with output and export in this sector because of the lack of sufficient incentive provided to producers as compared to exporters. Consequently, the pressure on domestic supply is evident from the data regarding both the availability of supply to the domestic market and

the mounting rate of inflation. In the case of Indonesia, serious supply bottle-necks had already merged in 1988 in a number of export industries, e.g. fertilizers, canvas, condoms, cement and plywood. 17/ In the case of Mauritius, the investment that took place was mainly made by foreign companies in EPZ geared to exports of textiles to the EEC region. The country could be very vulnerable as far as the future of such investment is concerned because of potential problems of market access. In Pakistan, despite a rise in the 1980s, the investment-output ratio was low at the beginning of the decade and at the time of writing was still lower than in the early 1970s.

36. The relationship between investment, structural change and labour productivity in the manufacturing sector for a number of sample countries was studied for the period 1980 to 1986. 18/ A close, positive association between growth in investment, on the one hand, and the degree of structural change and labour productivity, on the other hand, was found in all countries with the exception of Uruguay, Philippines and Sri Lanka. The structural change that took place mainly in the South-East Asian countries consisted of a shift towards production of such "dynamic" product groups as electrical and other machinery, industrial chemicals, transport equipment, etc., which were enjoying relatively faster growth in international trade in the 1970s and 1980s. 19/

37. To sum up, the differences in investment performance in the 1970s and 1980s seem to be an important factor in explaining differences in export and general economic performance. Investment contributes particularly to the expansion of supply capabilities, and facilitates change in the structure of output and labour productivity. In a number of cases, the expansion of exports has been at the cost of availability of supply to the domestic market. This in turn has resulted in a decline in investment which raises the question of sustainability of export performance in the long run.

B. Imports and other constraints on investment

38. Availability of foreign exchange was a major constraint on the growth of investment, production and export supply capabilities in developing countries in the 1980s. In developing countries, particularly those with a small or non-existent capital goods sector, investment in physical terms is characterized as a composite of goods containing both domestically produced and imported components. 20/ The substitutability between the domestic and imported components could be imperfect or non-existent. 21/ As a result, even when financial resources for investment are domestically available, growth in investment might be constrained by availability of foreign exchange. Foreign exchange constraints affect both the growth of investment and the speed of adjustment in the structure of capital stocks. In fact, it has been shown that capital accumulation strongly responds to changes in availability of foreign exchange, and that there is a positive association between imports of capital goods and availability of foreign exchange. 22/ Import compression affects investment adversely through its impact on availability of not only capital goods, but also intermediate products and raw materials. It also may influence investment because of hesitancy due to the resultant uncertainty perceived by investors.

39. For the sample countries in this study, table 3 provides data on growth of imports in real terms in the 1980s and shares of capital goods in total

imports (both in current prices) for 1978-1980 and 1985-1986, the latest years for which data are available. Items covered by SITC 7 are used as a rough proxy for capital goods. These items constitute the bulk of capital goods. The necessary figures on the growth rates of imports of capital goods in real terms could not be calculated because of the lack of an appropriate deflator. Hence, the ratio of capital goods to total imports in current terms is used for the purpose. Accordingly, table 3 indicates an association between growth of investment in real terms, on the one one had, 23/ and growth in volume of total imports and particularly in the share of capital goods in total imports, on the other hand. Some countries in category A did not show a particularly high rate of growth in imports, but in the majority of these cases the share of capital goods in total imports had increased. In contrast, in category B the negative growth rate of imports was accompanied in most cases by a falling share of capital goods in total imports. 24/ In other words, in these cases import compression had had a more severe effect on imports of capital goods than on imports in general. It is possible, however, that some industries suffered more than others, and that some did not suffer at all, depending on government policies regarding the allocation of foreign exchange and import policies.

40. The obligation to repay debts has been the main reason for import compression. While import compression has taken place in all countries, the heavy debtor countries, particularly low-income ones (in category B), suffered more than others (see table 3). In certain countries in category B, trade surplus (the trade balance) used to finance debts exceeded 30 per cent of total exports, reaching 83 per cent in the case of Jamaica. In contrast, most countries in category A managed to finance a substantial trade deficit. Moreover, it should be mentioned that most countries of category B rely more than other countries on an imported supply of capital goods because of their lack of domestic supply capabilities.

41. Indonesia's success in exportation, despite import compression, is remarkable. This achievement is, among other factors, due to development of the agricultural sector, particularly for staple items. 25/ Such expansion has eased pressure on the balance of payments through import substitution in the food sector and diversification into a new line of production for exports, e.g. plywood. Hence, unlike many other developing countries, in Indonesia the share of food in total imports declined substantially from nearly 9.5 per cent in 1971 to 4 per cent in 1986 while the import-GDP ratio increased from about 15 per cent to 23 per cent over the same period. 26/

42. In theory a decline in imports could be divided into two elements: import savings due to import substitution, and import compression. In practice, however, at least in cases where growth of MVA has been negative, at the aggregate level substitution could not have taken place although some industries still might have enjoyed import substitution. In other cases one cannot rule out the possibility of some import substitution. Nevertheless, on the basis of data on the trade balance, it is evident that significant import compression has taken place particularly in high debtor countries which had to run a surplus in their current account in order to pay their debts. Developing countries have employed various means of import compression including expenditure switching (devaluation), expenditure reduction and even in some cases import restrictions. As has already been shown in section I of this study, in most countries domestic absorption, i.e. real expenditure,

Table 3

Changes in investment, total imports, imports of machinery, debt service ratio and the ratio of trade balance to exports for the sample countries

(1980 - 1987)

Groups	Countries	Ig (1)	Mg (2)	Mk/M (Per cent) 1978-1980 (3)	Mk/M (Per cent) 1985-1986 (4)	Debt service ratio 1986 (%) (5)	TB/x 1986-1987 (%) (6)
	Category A						
a	Indonesia	11.3	0.91	32.4	33.7	30.4	26.0
	Malaysia	1.4	0.40	35.1	41.0	20.0	38.0
	Korea/Rep of	10.0	9.80	25.0	31.0	25.0	10.0
	Sri Lanka	- 4.3	1.10	21.8	18.6	20.0	- 58.0
	Mauritius	14.7	4.70	17.6	11.3	6.8	1.3
	Thailand	4.1	2.60	23.9	26.6	26.0	- 8.0
	Pakistan	7.2	2.20	28.4	26.8	32.0	- 51.0
b	Turkey	5.2	9.40	21.5	27.3	33.0	- 44.0
c	Venezuela	1.3	.90	45.9	40.7	25.0	10.0
d	Morocco	- 2.6	- 0.40	22.7	19.1	41.0	- 70.0
e	Mexico	- 4.9	- 1.80	43.7	42.2	56.0	33.0
	Category B						
f	India	4.0	4.80	13.7	24.3	24.6	- 53.0
g	Bangladesh	4.1	3.00	21.50	17.1	n.a.	- 13.0
	Singapore	4.5	5.10	36.1	29.4	3.0	- 13.0
	Kenya	- 0.3	- 2.60	30.0	21.9	29.0	- 55.0
h	Colombia	1.6	- 2.80	34.6	30.1	31.0	22.0
i	Ghana	3.7	-1.25	28.1	37.6	19.0	10.0
	Yugoslavia	nil	- 0.20	29.9	23.5	19.0	- 12.0
	Costa Rica	0.1	- 1.50	26.3	19.9	31.0	- 6.0
	Chile	6.8	- 2.80	29.3	29.7	38.0	23.0
	Nigeria	- 8.4	- 13.7	40.0	33.6	23.0	35.0
	Bolivia	-13.7	1.5	44.3	39.7	13.5	- 17.0
	Cote d'Ivoire	- 8.4	- 2.4	33.3	20.3	33.2	2.0
	Uruguay	- 8.0	- 2.30	23.8	18.3	22.0	8.0
	Peru	2.2	0.39	36.7	27.2	28.0	- 35.0
	Argentina	- 7.2	- 6.50	34.6	30.1	53.0	19.0
	Jamaica	3.2	3.10	11.2	21.5	17.0	83.0
	Ecuador	- 3.3	0.10	48.6	34.4	31.0	4.7
	Sierra Leone	- 4.6	- 14.3	33.7	15.3	n.a.	12.0 e/
	Category C						
j	Senegal	2.0	1.60	21.6	25.6	24.0	- 80.0
k	Philippines	- 7.5	- 1.30	23.2	13.0	25.0	17.0
l	Brazil	- 1.2	- 3.90	19.2	18.5	41.0	35.0

Source: UNCTAD Secretariat, columns (1) and (2) based on World Bank's Data Bank; columns (5) and (6) based on UNCTAD Data Bank.

a/ Classified according to the rate of growth in exports of manufactured goods.

b/ Real effective Exchange Rate unless stated.

c/ Real Exchange Rate.

d/ 1980-1986.

e/ Export figures are for 1985-1986.

Ig : Average annual growth rate of investment at constant 1980 prices

Mg : Average annual growth rate of imports in constant 1980 prices

Mk/M: The share of capital goods in total imports in current prices; SITC (7) is taken as a rough indicator of capital goods

TB/x: The ratio of trade balance to total exports

declined significantly, or did not keep pace with GDP growth and investment outlays have been affected more than consumption. Hence, it would appear that expenditure reduction (or diversion of supply to exports), together with import compression, has resulted in a decline in investment or at least in its rate of growth. Obviously, import compression also affects the level of output through its impact on capacity utilization. In the absence of data, however, one cannot judge the extent of such an impact.

43. To sum up, it is not surprising that imports seem to have become a bottle-neck with respect to the expansion of exports of manufactured goods. In fact, an empirical investigation for a group of 34 developing countries over the 1971-1980 period indicates that the elasticity of the volume of gross exports with respect to imported input is significant, and has an estimated value of 0.52. In other words, a 1 per cent decline in imports would result in a 0.52 per cent decline in exports. 27/

III. TRADE POLICIES AND EXCHANGE RATE ADJUSTMENTS

44. Does trade liberalization and a tendency towards uniform import duties and exchange rate adjustment result in better economic performance? In particular, does exchange rate devaluation stimulate exports of manufactured goods? Have the South East Asian countries, particularly South Korea, which have shown a relatively better economic and export performance, followed a liberal trade régime? This section sheds some light on such questions in a discussion of trade and exchange rate policies in the sample countries.

A. General tendencies

45. A number of unresolved conceptual, methodological and practical problems makes it very difficult to evaluate with precision the impact of trade policies on trade and economic performance. The most important conceptual problems are related to the definition of the orientation of trade strategy, 28/ the distinction between trade liberalization and trade policy reform, and the relations between trade orientation and market orientation. For example, if outward orientation means neutralizing the bias in the incentive structure against exports, there are two different approaches to the issue. One is to liberalize both imports and export régimes leaving trade absolutely to the operation of market forces. To interventionists, however, neutrality could mean equalizing the incentive to exports and imports regardless of the level of import barriers and export incentives. 29/ Moreover, even complete trade liberalization would not imply that import substitution is excluded although it would imply the exclusion of protection of imported competing goods.

46. The main practical problems are related to difficulties in separating the impact of trade policies from those of industrial and macro-economic policies. Moreover, there are inter-actions between internal policies and external conditions. Quite often the policies of developing countries are shaped by factors beyond their control - for example, world recession, increases in interest rates, debt payment obligations, or relations with multilateral financial institutions.

47. Another practical problem is the lack of comprehensive data in this field. In order to analyse the impact of imports on exports and output performance, it is necessary to ascertain the effective rate of trade protection. There is a problem in that up-to-date calculations are not available for all countries; even where they are available they are not always relevant for making a comparison among countries because of differences in calculation methodology. The recommendation to aim for uniformity of the tariff structure is not always clear in the literature. Does it concern uniformity of the nominal tariff rate or of the effective rate? 30/ Since in practice many developing countries are being advised to strive towards uniform nominal tariff rates, data based on nominal rates would seem quite relevant to this study.

48. Apart from the tendency to recommend uniformity of tariff rates, the distinctive feature of the 1980s, as far as trade policies of developing countries are concerned, is that most of them have relied on one or a combination of the following measures in response to changes in the external situation: conversion of non-tariff measures to tariffs, reductions in tariff rates, expenditure switching (devaluation) and expenditure reduction. For the

reasons already mentioned, in-depth research is required into the impact of trade and exchange rate policies on export performance. Despite the absence of data some inferences may be made concentrating on the main features of changes in trade and exchange rate policies of the sample countries. Table 4 provides some qualitative information, mainly on a number of countries in two extreme cases in the sample: high and low export and economic performers, i.e. group a in category A and group i in category B (see table 1). These groups have shown relative success and failure in both exports and economic performance, respectively. Mauritius is excluded from the first group because of its special situation. Trade and exchange rate policies have hardly any relevance to EPZ which is responsible for almost the entire amount of manufactured goods exported by this country. (EPZ is also important in Malaysia, although to a lesser extent, a fact which should be borne in mind in the interpretation of data.) In the groups, some countries with low income and industrial base were included as well as some with a relatively higher level of income. India and Singapore from category B (groups f and g) have been included because of their high general economic performance despite low export growth. India is also included because of its size and the nature of its trade policies. The Philippines represent category C.

49. Table 4 depicts the relative, rather than absolute, position of the countries with respect to the tendencies of various policies. For measuring selectivity (i.e. disparity) in tariff and non-tariff measures, because of the nature of the data available, a particular index developed for the purpose was employed, as explained at the bottom of table A.2.

50. The results of the analysis are mixed. Among both high and low performers are countries which followed similar import and exchange rate policies. Within each category there are countries with similar exchange rate policies but different import régimes. For example, Argentina, Peru and Philippines, among low performers, and Indonesia and Pakistan as examples of high performers, undertook significant real exchange rate devaluation. In all these countries, the import régime remained highly restrictive despite some changes. Bolivia, Uruguay and Chile, like Argentina, Peru and Philippines, recorded a significant real exchange rate devaluation, but unlike the latter countries they had a low level of import barriers at the beginning of the 1980s, followed by further significant liberalization of barriers in the case of Bolivia and Uruguay.

51. In many low-income countries, trade liberalization and exchange rate devaluation not only failed to stimulate exports but was also accompanied by de-industrialization. India was neither active in its exchange rate policies, nor liberal in its import régime, yet the country showed a significant degree of success in terms of GDP growth and price stability despite its relatively low rate of export growth. 30a/ Some higher performers, e.g. Malaysia, Thailand and South Korea, devalued their currency moderately and intensified liberalization of their import régime. The results should nevertheless not be taken to imply that import régimes constitute the only factor which would explain their performance. These countries have also shown high supply capabilities and investment performance and are among those countries which enjoyed high growth rates of imports. Moreover, their low average tariff rates should not imply that they have followed a liberal trade régime, as will be explained below.

Table 4

Typology of selected sample countries according to their growth in absorption and relative position in trade and exchange rate policies in the 1980s

Countries	Real effective exchange rate devaluation a/			Growth in absorption (annual average)		Trade régime									
						Imports (all charges, NTMs)				Indices of selectivity of import barriers b/					
										All changes			NTMs		
	S	M	L	Negative	Positive but less than GDP_g	Low and reduced significantly	Low and maintained or reduced	High but reduced							
								Significantly	Little	High	Medium	Low	High	Medium	Low
Low Performers:															
Group B.i															
Bolivia,	x			x		x						x			x
Chile, Uruguay	x				x	x						x			x
Jamaica	x				x	x				x			x		
Ghana	x				x			x				x			x
Costa Rica	x				x			x		x					x
Argentina	xc/			x					x			x			x
Nigeria	x			x			x			x			x		
Group C															
Philippines	x			x			x		x						x
High Performers:															
Group A.a															
Korea, Rep. of		x			x		x					x			x
Sri Lanka		xc/			x			x			x				x
Thailand		x			x			x			x		x		
Malaysia		x			x		x			x				x	
Indonesia	xc/				x				x	x					x
Pakistan	x				x				x			x			x
Group B.f															
India			x		x				x			x			x
Singapore			xc/		x		x			x			x		

Sources: Based on tables A.2 and A.3 and UNCTAD's Data Bank on Trade Control Measures of Developing Countries

Notes: S = significant; M = medium; L = little; GDP_g = annual average growth rate in GDP.

a/ S = more than 20 per cent; M = between 20 and 5 per cent; L = less than 5 per cent;

b/ High = higher than the sum of average plus 10 per cent of the average.
Medium = the range of average ± 10 per cent of the average.
Low = less than the sum of average minus 10 per cent of the average.

c/ Real exchange rates.

52. Before elaborating on this point however, the interrelation between level of development and initial industrial base, on the one hand, and trade strategies and exchange rate policies, on the other hand, will be explained in some detail. The interrelation emerges not only from an analysis of table 4 but also to varying degrees shows up in analyses of other sample countries not included in that table.

B. The importance of the level of development and the initial industrial base (supply capabilities)

(i) Import régime

53. The number of sample countries is small. Furthermore the sample does not include many low income countries. Nevertheless, it appears that most of the low performers appearing in table 4 which had significantly reduced their import barriers, whatever their previous level of protection (whether low or high), were countries with low levels of development and a particularly small industrial base. Conversely countries which were high export performers which had either relatively low import barriers or had reduced their import restrictions, were countries with relatively high levels of development, a broader industrial base, and thus significantly greater supply capabilities.

54. These results are not surprising. Trade policies, however similar, play different roles for the two groups concerned. For the low-income group, the main issue is that of establishing an industrial base. Before establishing such a base, through protection of infant industries - whether the product is sold in the domestic market or abroad is essentially irrelevant - they simply lack any industrial supply capability. Hence import liberalization would only lock them into primary production. For the countries which have already gone through long years of import-substitution and developed a broader industrial base, the main issue is the transition of mature or nearly mature industries into those which would be competitive in both the domestic and external market.

55. For countries with an industrial base, the capacity to produce capital goods is critical. Such capacity requires, among other elements, technological know-how. The capacity to produce capital goods facilitates adjustment and shifts of resources from one industry to another in response to changes in the external situation. 31/ South Korea is such an example. Its capacity to produce capital goods has not only facilitated adjustment in the export structure, but has also offset the negative impact of import compression.

(ii) Devaluation and stability of the exchange rate

56. For most low-income countries (in category B) with a small industrial base and supply capacity, a large devaluation of the real exchange rate not only did not stimulate exports, but was accompanied by inflation (see table 1). For countries with a higher income and industrial base, the results have varied. For Korea and Thailand, for example, a small depreciation of the real exchange rate was associated with high export performance. For certain others, devaluation seems not to have stimulated exports (e.g. Argentina, Costa Rica, et al.). In some higher income countries, e.g. Mexico and Turkey, a large devaluation was accompanied by a high rate of growth of exports and a high rate of inflation. Nevertheless, for the majority of countries in

order to obtain a certain rate of real exchange devaluation (see table A.3). In these countries, the manufacturing sector usually shows higher supply elasticities. Moreover, demand for exports of manufactured goods shows higher price elasticities. Since the price of manufactured goods is cost-determined, devaluation by one individual producer alters prices in terms of a foreign currency, and thus stimulates external demand. Nevertheless, export price elasticities of demand for many manufactured goods being more than unity, 35/ the term of trade losses (caused by individual or collective devaluation) would not usually, "All other things being equal", be as high as those in the case of primary products. Hence a small devaluation would usually be enough to stimulate demand for exports. It should be noted, however, that the terms of trade losses may not necessarily always be less in the case of manufactured goods. For the 1980s, in the case of a number of new exporting countries, e.g. Turkey, Pakistan, Thailand, Bangladesh, Kenya, Jamaica, the loss in the terms of trade in the manufacturing sector was greater than that in the primary sector. This may have been caused by the lack of marketing channels and the existence of monopsony or oligopsony power in the market for their exports.

62. Supply (production) elasticities of tradeable goods depend, to some extent, even in countries with a broad industrial base, on the availability of foreign exchange. When trade is relatively buoyant, the manufacturing sectors respond positively to relative price changes. The case of Korea and some other South-East Asian countries could be explained accordingly. Moreover, some of the countries in category A (e.g. Indonesia, Malaysia and Thailand) had enjoyed some excess capacity in their import-substituting industries at the beginning of the period. Their export promotion, including exchange rate policies, tapped this capacity. Conversely, import compression reduces supply and import demand elasticities, 35a/ thus limiting the response to devaluation in the production of tradeable goods. Devaluation may at best simply stimulate exports without stimulating production, thus leading to inflation. At worst, devaluation leads only to inflation. At an intermediate stage the growth of imports may not keep pace with the growth of exports.

63. It is sometimes argued that, in the medium or longer term, devaluation could serve as an instrument for re-allocation of resources by giving decision-makers a correct signal. 36/ It should be mentioned, however, that as far as the 1980s are concerned, the result of the analysis for the medium term would not be very different from that of the short term, with one qualification. For low-income, primary-producing countries and higher income countries suffering from import compression, production capacity h[illegible] tended to increase in the primary rather than in the secondary sector, even in the medium term. In fact, the manufacturing sector suffered from de-industrialization, as already mentioned. A study showed that devaluation by a number of producers of the same commodity - tea - had led to the expansion of output of primary commodities and to terms of trade losses. 37/ This is quite contrary to the claim sometimes made that devaluation stimulates production and exports of non-traditional goods and leads to diversification. 38/

64. The impact of devaluation in the long run might be exemplified by the case of Chile which started applying liberal exchange rate policies in the early 1970s. The percentage share of the manufacturing sector in GDP declined from 27.4 to 24.3 for the period 1970 and 1980 for which data are available.

The share of MVA in GNP (for which data are available for the 1980s) declined from 24.3 per cent to 21.8 per cent between 1980 and 1987. 36a/ The share of export of manufactures to total exports increased from about 4 per cent to nearly 9 per cent over the same period, but then declined to 7 per cent in 1986. 38a/ Conversely, the share of exports of non-traditional primary products such as fruits, vegetables and some other food items expanded.

65. Such a response by the two sectors can be explained. Devaluation increases the domestic price of tradeables. For low-income, primary producing countries, the elasticities of supply of primary commodities are usually greater over the long run than the short-term elasticities, and seem to be even higher than the elasticity in the manufacturing sector. In the case of higher income countries which have suffered from import compression (e.g. Brazil and Argentina) the import-intensity of the modern manufacturing sector is far greater than that in the case of primary commodities.

66. In conclusion, devaluation and "trade liberalization" practised during the 1980s by primary producing countries, and those countries which suffered from import compression, has led to a result quite contrary to that which had been intended in terms of resource allocation.

C. Trade régimes of Asian NICs and other fast exporters of manufactures

67. The record of trade policies of Asian NICs does not indicate that they have followed a liberal trade régime either in the 1980s or in the previous period. Since South Korea is often cited as an example of a country with a liberal trade régime, it is main to this country that reference is made in the following pages. Most Asian NICs (all of those included in the present sample) had started their industrialization with import-substitution, then after they had reached a certain level of development they applied a mixture of import-substitution and export promotion, relying on selectivity with a discriminatory incentive structure.

(i) Mixed policies of import substitution and export promotion

68. While most Asian NICs are presently among those countries with relatively low import barriers, this should not imply that they do not offer incentives to stimulate production for the home market. Like the case of Japan, in none of these countries did the shift to export orientation put an end to import-substitution. In all of them the effective rate of protection has been higher and still remains higher than the nominal rate; hence their domestic industries still enjoy some protection. 39/ In fact, even in nominal terms, some of these countries appear to offer more protection than many other developing countries. For example, in the mid-1980s South Korea ranked eighth in the study sample, in terms of combination of mean tariffs, "all charges" and frequency of NTMs; it was thirteenth in terms of mean tariffs alone, twelfth with regard to all charges and eleventh in terms of frequency of NTMs. 40/

69. Furthermore in the countries concerned the exporters of manufactured goods have been provided with incentives and concessions of one kind or another. For example, in the case of South Korea, the value to exporters of the concessions is estimated to have been around 10 per cent of gross export receipts in the late 1960s. 41/ Even in the 1980s, exports were given various incentives including favourable interest rates, tax concessions and subsidies

by the Governments of most of these countries. Malaysia intensified its import substitution policies in the late 1960s and in the 1970s while at the same time introducing important incentives for exports in 1968. Thailand has also followed a set of mixed policies since 1972 after intensive import substitution in the 1960s. 42/ Hence, one distinctive feature of most Asian NICs in both the 1970s and 1980s is that they have followed a mixed trade policy. Their success is attributed, among other factors, to such features as well as to their high degree of selectivity.

(ii) Selectivity

70. Table 4 indicates that most countries with a good export and economic performance seem to have followed more than others the selectivity principle in their nominal tariff structure, and to some extent in the structure of non-tariff measures. By contrast, most low export performers, Jamaica being one notable exception, have followed a more or less uniform import incentive structure (both tariff and NTMs) in their import liberalization efforts (see also table A.2). The method of calculation of the selectivity index used here is rudimentary because of data limitations. In order to verify the results, a more satisfactory index (coefficient of variation) was used for calculation of dispersion of tariff rates for which the calculation was feasible. On balance, the results confirm the earlier findings.

71. In South Korea, Malaysia, Thailand and most other South-East Asian countries, the tariff system has been geared to the protection of certain industries on a selective basis. However, the selection depended on the state of industrialization and its changes over time. For example, at early stages in the 1950s, South Korea provided selected light industries with duty-free status for imports of non-competitive capital goods and raw materials needed by domestic industries; it set high tariffs on finished goods, and very high tariffs on luxury items. 43/ In the late 1970s, the discriminatory tariffs rates shifted so that the effective rate of protection favoured consumer durables and machinery which enjoyed an effective rate of protection of up to 135 per cent. 44/ Such a change was part of a wider policy aimed at changing the structure of domestic production and eventually the structure of exports.

72. A comparison of import liberalization efforts of Sri Lanka and Colombia for recent years would be an interesting study with regard to the issue of selectivity. Both countries had introduced some import liberalization in the late 1970s. This trend was maintained in both cases for a common period up to 1982 with one marked difference: Sri Lanka liberalized its import régime on a discriminatory basis. The effective protection coefficient varied from minus 5 to plus 3. 45/ In contrast, Colombia had liberalized its import régime on a uniform basis. 46/ In the case of Colombia, import liberalization led to a severe decline in output and exports of the manufacturing sector, mainly in the "late industries". These industries still required infant industry protection and depended on imports more than the traditional industries which enjoyed a certain degree of maturity. In the case of Sri Lanka, output and exports expanded fast, particularly during the first couple of years before the country faced problems caused by sluggish external demand. 47/

73. In most successful Asian NICs, particularly in South Korea, the discriminatory incentive structure was not confined to the import régime alone. It also covered the export régime and the industrial and investment

incentive structures. In most of these countries, like other successful new exporting countries, investment received significant preferential treatment not only in terms of availability and price of imported capital goods, but also in terms of interest charges and other investment costs. 48/

74. The theoretical argument for and against selectivity is an extension of the argument for and against protection and other forms of government intervention in international trade. The proponents of free trade would argue that selectivity would contribute to price distortion and, consequently, to misallocation of resources. The main arguments in favour of selectivity include: "infant industry protection", scarcity and externalities. The infant industry argument is well-known. One should add, however, that a country cannot by definition, develop dynamic comparative advantage in all production lines simultaneously.

75. The scarcity argument is complementary to that regarding protection of infant industries. Real and financial resources of developing countries particularly foreign exchange and skilled human resources are scarce. Hence, spreading resources in an excessively diversified manner - without allowing accumulation to take place in any sector up to the level necessary to generate a process of cumulative causation - is sub-optimal. 49/

76. The externality argument 50/ is related to that of the dis-economies impinging on infant (and other) industries as a result of consumption of imported luxury goods. Each dollar spent on such goods removes that amount of scarce foreign exchange which could otherwise benefit productive industries badly in need of foreign exchange. 51/

77. Finally, as mentioned earlier in this section, if the intention is to provide various industries with a uniform incentive structure, the introduction of a uniform nominal tariff would not serve the purpose because a uniform effective rate of protection requires non-uniform nominal tariffs for the simple reason that all industries do not use the same inputs. Even if they did, input-output coefficients differ and the share of imports in total inputs would vary in each case.

78. It should be emphasized that the arguments for and against protectionism or liberalization cannot be generalized. "Selectivity" ought to be considered within a particular context, related to the level of development and the state of industrialization of an individual country.

(iii) Other factors

79. Many other factors may also be responsible for success of policy reform during the transition to competitive production in the case of countries with a significant industrial base and supply capability. A few will be mentioned here. One consideration is the experience of countries with regard to the speed or degree of caution in their policy reform. This applies not only to trade, but in other respects as well. Time and caution are necessary because the industrial sector needs time to adjust to a new situation. Time is also needed to shift resources from one line of production to another. The caution exercised by Indonesia with respect to import liberalization is one such example. The comparison between Mexico and Brazil in their experience with liberalization of their foreign exchange régime is another example. While

Brazil continued with the old tradition of capital control, Mexico liberalized its foreign exchange régime in 1984. As a result, by the end of 1984, foreign assets held by Mexican residents had reached 84 billion dollars, a significant loss in terms of domestic import and investment capacity. 52/

80. Another important factor, although one that is difficult to evaluate, is the timing of reform. Trade policy reform would be easier to undertake when the external as well as the internal market is growing than during a period of recession. The experience of Sri Lanka in the late 1970s, as compared with the 1980s, is an example. 53/ Other examples are, once again, the ASEAN countries which undertook such reforms in the late 1970s as compared to the mid-1980s.

81. Another factor is foreign investment and the role of cumulative causation: success breeds success. The South-East Asian countries have been privileged in attracting foreign investment in the 1980s. Foreign investment in the region increased particularly due to the policies of the Japanese Government to recycle funds and invest in the region. It was also helped by the new policies of Japanese firms towards a sort of horizontal division of labour in parts and components and the re-location of some Japanese industries in the region. 54/ The situation in Mauritius also stands as an example of the role played by foreign investment in the development of EPZ and the provision of marketing networds, technology and information on product design and consumer tastes. In addition, the Asian countries also had access to other sources of external finance. Another important factor is the development of a stable, pre-announced, consistent but flexible trade policy. This point is well substantiated by the case of South Korea and Malaysia. Last but not necessarily least is the role of non-economic factors. These vary from natural, historical, institutional, organizational, technological and socio-political factors to the external environment and other conditions. 55/

IV. CONCLUSIONS

82. The analysis of the sample countries treated in this study indicates that their export and economic performance varied in the 1980s. On balance a number of Asian countries with a higher initial level of development and industrial base and with more developed supply capabilities continued to maintain their relatively rapid manufacturing export and output growth with a reasonable degree of price stability. The higher rate of growth of export volume in these countries (as well as a number of others) was significant enough to sustain high rates of growth of purchasing power of exports of manufactures. This was so despite the fact that their higher export volume growth was achieved at the cost of a loss in their net barter terms of trade in excess of the loss by other countries studied. Most low-income countries of Africa and debtor countries in Latin America showed poor performance in all respects.

83. The study has shown that trade policy and exchange rate adjustment in themselves cannot explain better economic performance and growth of exports. A strong association was found between economic performance in the 1980s and capital accumulation in the current, as well as the previous decade. Moreover, while supply capability seems an important determinant of export performance, in the majority of cases the stimulation of exports was achieved partially at the cost of availability of supply to the domestic market. In fact, in many cases the expansion of exports was accomplished at the cost of investment. Moreover, in most countries, particularly the heavily indebted ones, the expansion of supply capabilities, including exports, had been constrained by availability of foreign exchange. Policies of import compression and expenditure-reduction undertaken by those countries were maintained at the cost of investment. Some of the countries which had managed to expand their exports did not seem likely to be able to sustain their export growth in the future.

84. The impact of trade liberalization measures and devaluation on export performance was varied depending on the level of development, supply capabilities, availability of imports, and the nature of policies adopted. In the low-income countries such measures did not stimulate exports of manufactured goods but had led to inflation, output failure and in many cases to de-industrialization. Conversely, their dependence on primary commodities had increased. In other words, in terms of resource allocation, exchange-rate devaluation and trade liberalization had led to results contrary to those intended. It appears that for countries with a small industrial base, the development of supply capabilities is the first step to be taken before trade liberalization and exchange rate devaluation. Until a certain stage is reached in the process of industrialization, infant industry protection is required.

85. In countries with a higher level of development and a significant industrial base, no severe import compression, pursuing policies with a mixture of import substitution and export promotion and following a pattern of "selectivity" in terms of protection, the results have been, on balance, more favourable. Moreover, these countries could rely more than others on exchange rate adjustments in order to stimulate exports of manufactured goods. Conversely, countries suffering from import compression failed in their

attempts to stimulate exports. Moreover, they experienced inflation and slow, or negative output growth. Most Asian countries in the sample fall into the former group. The record of their trade policies does not indicate that they have fcllowed a "liberalized trade régime".

86. One implication of these findings is that there is no general prescription regarding successful trade and industrialization policies. Individual countries should be allowed to gear their trade policies to their level of industrialization and their development objectives according to their needs, level of development and particular circumstances. Within such a framework, however, trade policy reform, although not necessarily liberalization, may be necessary. Another implication is that the acceleration of exports for debt repayment has limits. Unless debt relief can be obtained, many developing countries will face irreversible socio-economic problems.

Notes

1/ See, for example I.M.D. Little, T. Scitovsky and Mr. Scott, Industry and Trade in Some Developing Countries, Oxford University Press, London, 1970; B. Balassa, Development Strategies in Semi-Industrial Economies, Johns Hopkins University Press, Baltimore, (for the World Bank), 1982. For a critical survey of the issues see John Weiss, Industry in Developing Countries, Groom Helm, London, 1988, chapter 7.

2/ See Weiss, Loc. cit. for more details.

3/ E. Ghani, Trade Régime and Trade Performance of Mauritius in the 1980s, mimeograph, 1989, Table 9, based on World Bank sources derived from national statistics.

4/ If one excludes Ecuador in the list of group B because of its small exports and somewhat sceptically significant improvement in its terms of trade, the disparity between the figures for the two categories will change significantly (the average rate of growth of the net barter terms of trade for group B will mount to 0.2).

5/ Singapore is excluded from the list because it is very likely that the share of MVA in GDP declined because the country has reached a certain level of development beyond which the service sector expands more rapidly. Moreover, Singapore is a service port.

6/ See Colin I. Bradford, Jr., "Trade and Structural change: NICs and Next Tier NICs as Transitional Economies", "World Development, 1987", No. 31, pp. 299-316.

7/ See Jan Fagerberg, "International Competitiveness", The Economic Journal, June 1988, pp. 350-374.

8/ See R.A. Batchelor, "The Effects of Trade on Growth" in R.A. Batchelor, R.L. Major and A.D. Morgan, Industrialization and the basis for trade, (Cambridge Press, Cambridge, 1980), pp. 192-227, particularly pp. 192-193).

9/ See Kalecki, "The Problems of Financing Economic Development", Indian Economic Review, 1955, No. 3, pp. 1-22.

10/ See Batchelor, op. cit., p. 193 and 203 for the theoretical discussion and empirical evidence as well as the assertion that the contribution of investment to growth is higher than the contribution of exports to growth except for least developed countries where it is equally important (pp. 198-203).

11/ Average annual growth rates of investment and MVA showed a correlation coefficient of 0.70 with an elasticity of 0.43. The correlation between investment and GDP growth rate was weaker (R = 0.34) and the relevant elasticity lower (0.23). This could be explained by the reduced significance of investment in services than in the manufacture sector and the existence of excess capacity in the primary sector on account of the recession.

12/ The correlation coefficient between exports and investment (as an independant variable) was found to be 0.48. The estimated elasticity was significant however, showing a value of 0.91.

13/ The same pattern is observed for 1970s; see H.W. Arndt, "Industrial policy in East Asia", Industry and Development, 1987, No. 22, pp. 1-66, particularly section B.

14/ Based on UNCTAD data base.

15/ Industrial branches 382 and 385.

16/ Based on a UNIDO, Industry and Development, global report, 1988-89, pp. A-16 and A-5.

17/ See Economic Intelligent Unit, Country Report, Indonesia, No. 4, 1988, p. 13 and pp. 45-48.

18/ These are Turkey, Morocco, Senegal, Mexico, Uruguay, Brazil, Colombia, Ecuador, Philippines, Korea, Pakistan, India, Malaysia and Sri Lanka. The data used are based on UNIDO, Industry and Development, Global Report 1988-89, the Statistical Appendix.

19/ See S. Hark Park, "A Decomposition Analysis of Manufacturing value added and Structural Change by Industry and Region, 1963-1980", The Developing Economies, September 1988, pp. 264-291.

20/ See E.F. Buffie, "Devaluation, Investment and Growth in LDCs", "Journal of Development Economics", March 1986, pp. 361-379; and Marquez, "Foreign Exchange constraints and growth possibilities in the LDCs", "Journal of Development Economics", September-October 1985, pp. 39-57.

21/ For example the domestic component may include factory building, or a machine which cannot be utilized without another complementary machine in the productive process.

22/ See Marquez, op. cit. (footnote 33): the elasticity of imports of capital goods (SITC &), with respect to an increase in foreign exchange resources is estimated at around 1.34 for non-OPEC developing countries for the 1960-77 period (see also p. 53) (for other manufactured goods, the estimated elasticity is slightly over unity).

23/ The elasticity of investment with respect to total imports was estimated to be 0.71 for the 1980s with a correlation coefficient (r) of 0.56.

24/ The results of this study on the relationship between investment and imports concur with the results of a study undertaken for the 1970s which showed that countries which maintained their imports also maintained high growth rates of both investment and output (see S. Dell and R. Lawrence, The Balance of Payments Adjustment Process in Developing Countries, United Nations, New York, Pergamon, 1980)

25/ See Mehdi Shafaeddin, "Agricultural price policies and the oil boom", Food policy, 1988, pp. 185-198.

26/ Based on UNCTAD Handbook of International Trade Development Statistics, 1988, table 4.2.

27/ See Mohsin S. Khan and Malcom D. Knight, "Import Compression and Export Performance in Developing Countries", Review of Economics and Statistics, 1987, pp. 313-321.

28/ Some scholars use trade share (export and/or import ratio in GDP) as an indicator of trade orientation. Others employ the incentive structure (compare, e.g. real effective exchange rate for exportables and importables) or they classify the countries according to the type of policy instruments employed (see G.K. Helleiner, "Trade strategy in medium-term adjustment", a paper presented to WIDER's Conference on International Trade, Helsinki, August, 1988).

29/ In practice, however, to reach neutrality, in many countries the import barriers are reduced while export incentives are increased (see Heinz-Gerd Preusse, "The indirect approach to Trade Liberalization": Dynamic consideration on liberalization-cum-stabilization policies in Latin America", World Development, 1988, No. 8, pp. 883-897.

30/ There is some confusion and contradiction on this point. If the nominal rate is the one recommended, it is nevertheless irrelevant since industrial activities are affected by the effective rate; if it is a question of the effective rate reaching and holding a certain level, the uniform rate is not a practical indicator. This is so not only because of difficulties in calculations, but also because any change in the uniform rate could alter the effective tariff structure.

30a/ Although its growth rate of exports was modest, since the country had been following an import-substitution strategy, by definition, it was not a high export performer.

31/ See also Jaime Ros "Mexico's stablilization and adjustment policies (1982-1985)", Labour and Society, 1986, pp. 335-361, particularly page 356.

32/ See, for example, Marian E. Bond "Export Demand and Supply for Groups of Non-oil Developing Countries", IFS papers, March 1985, pp. 56-77 for empirical evidence on the importance of devaluation. IMF, in a recent publication, stated that "It is clear that there is no simple relation between developments in real exchange rates and in current account balance" (World Economic Outlook, 1988, p. 731) cited in Frances Stewart, "Proposals for a review of GATT, Article XVIII: An assessment, in Uruguay Round, papers on selected issues, United Nations, New York, 1989, pp. 1-43. Mitchell Kellman and Peter C.Y. Chow showed that exports of the East Asian NICs were insensitive to changes in real exchange rate, but highly sensitive to changes in external demand (see their article "The Comparative Homogeneity of the East Asian NICs Exports of Similar Manufactures", World development, 1989, No. 2, pp. 267-273. N. Khaldor has shown that even in developed countries the relations between devaluation and export performance is weak (see "The effects of devaluations on trade in manufactures" in Khaldor, Further Essays on Applied Economics, (London, Duckworth). The text has been modified and developed on the basis of the material cited in F. Stewart, op. cit., pp. 23-28.

33/ According to a recent study, price elasticities of exports of developing countries to OECD countries for the period 1974-1984 varied from -0.61 to 0.08 for SITC (0 + 1), and -0.42 to 0.04 for SITC (2 + 4) (see J. Marquez and Karyl McNeilly, "Income and Price Elasticities for Exports of Developed Countries", Review of Economics and Statistics, May 1988, pp. 306-314, table 5).

34/ Obviously, they could lead to the expansion of the volume of exports of primary products when there is already excess supply.

35/ For exports to OECD, the estimated elasticities vary from -1.85 to -1.03 for the period 1974-1981 (see J. Marquez and K. McNeilly, op. cit., table 5).

35a/ There would be a shift towards a more inelastic part of the demand curve on the left hand side. After imports are cut beyond a limit, it would be very difficult to do without essential items. Further problems may also be caused by devaluations when accompanied by removal of quantitative restrictions, because the availabie foreign exchange might not necessarily be allocated rationally to the industries on priority bases (see F. Stewart, p. 27).

36/ See, for example, F. Stewart, op. cit., and Wattleworth, "The Effects of Collective Devaluations on Commodity Price and Exports", IMF staff papers, March 1988, pp. 166-180.

36a/ Based on World Bank, world tables, 1988-1989, pp. 184-187.

37/ See V. Bhaskar, "Export Incentives, Exchange Rates and Commodity Prices, The implication of Interdependence", Commonwealth Working Papers, Commonwealth Secretariat, May 1989.

38/ Wattleworth, op. cit., refers to the potential for adverse terms of trade effects of devaluation on primary commodities, adding that "funding is not an argument against devaluation, since the beneficial effect of such a policy in other areas, e.g. non-traditional exports, might outweigh the short-run effect in major commodity exports".

38a/ Based on UNCTAD, op. cit., table 4.3. See also J. Weiss (1988), op. cit., chapter 7.

39/ See Arndt, op. cit., p. 38, table 4. Even in Singapore and Hong Kong invisible barriers of one kind or another remained in place at least until very recently (Ibid, p. 37).

40/ Based on UNCTAD, Data Bank in Trade Control Measures of Developing Countries.

41/ See Arndt, op. cit.; for 1960s and 1970s see also W. Hong, Trade Distortions and Employment Growth in Korea (Korea Development Institute, Seoul, 1979), chapter 3.

42/ See Arndt, op. cit. See also H. Singer and P. Gray "Trade policy and growth of developing countries: some new data", World Development, 1988, No. 3, pp. 395-403.

43/ See Hong, op. cit., p. 45-53.

44/ See Arndt, op.cit. p. 38, table 4.

45/ A tariff structure of six bounds was employed to give reasonable effective protection to local industries and a range of zero per cent to 500 per cent tariff rates were used for essential and luxury goods, respectively. (See Rajapatrirana, "Foreign Trade and Economic Development: Sri Lanka's experience", World Development, 1988, No. 10. pp. 1143-1157, particularly p. 1150.

46/ Tariffs were reduced by 50 per cent across the board (see José Antonio Ocampo, "The Effects of liberalization and direct import control on Colombian manufacturing, 1976-1986", a paper presented to WIDER Conference on International Trade, Helsinki, August 1988).

47/ See Ocampo, op. cit., see also H. Singer and P. Gray, "Trade policy and growth of developing countries: some new data", World Development, 1988, No. 3, pp. 395-403.

48/ See Colin I. Bradford, op. cit., particularly pp. 305-314; for South Korea also see W. Hong, op. cit., particularly chapter 3 and pp. 269-270.

49/ See José Antonio Ocampo, "New Development in Trade Theory and LDCs", Journal of Development Economics, No. 22 (1986), pp. 129-170, particularly p. 158.

50/ The effects of production externalities are a part of the infant industry argument, here the argument concerns the externalities created by consumption for production of other goods.

51/ "Revenue raising" is another argument in favour of taxing imports of luxury goods.

52/ See, Jaime Ros, op. cit.

53/ See Rajapatrirana, op. cit.

54/ See UNIDO, op. cit., pp. 92-96.

55/ For a detailed analysis of these factors in the case of South-East Asian countries, see Arndt, op. cit.

Annex

Table A.1

Countries with declining share of manufacturing sector a/ in GDP and/or exports (1980-81)

Country	Percentage share in GDP 1980	Percentage share in GDP 1987	Percentage share in exports 1980	Percentage share in exports 1987
Category A				
Mexico	22.1	21.2		
Morocco	17.1	15.8		
Category B				
Bangladesh	9.9	9.2	67.2	63.2
Singapore	22.2	26.7	54.0	44.8
Côte d'Ivoire			9.4	7.1
Colombia	17.0	16.8	20.4	9.7
Ghana	7.8	7.1	3.2	2.6
Costa Rica			24.3	30.9
Chile	21.4	20.7	9.5	7.4
Bolivia	14.6	10.8	3.0	1.5
Uruguay	22.4	21.7	38.2	27.0
Peru			17.1	14.7
Argentina	22.1	21.4	23.2	18.2
Ecuador	17.7	17.3	3.0	1.5
Sierra Leone			56.1	47.6
Category C				
Philippines	24.4	23.7		
Brazil	28.4	27.0	38.6	38.1

Sources: As table 1.

a/ Where the ratio has increased, the space is left blank.

Table A.2

Index of "selectivity" of the import barriers for manufactured products of the sample countries (mid-1980s) a/

Groups	Countries	Year of reporting	Tariffs	Total charges	Non-tariff measures
	Category A				
a	Indonesia	1897	299.0	276.0	36.4
	Malaysia	1987	320.1	245.6	418.8
	Korea	1987	62.4	55.6	203.6
	Sri Lanka	1988	198.0	139.0	248.2
	Thailand	1986	175.7	127.3	1 067.9
	Pakistan	1986	153.5	161.1	34.1
b	Turkey	1987	284.0	280.0	45.0
c	Venezuela	1988	298.8	229.9	189.7
d	Morocco	1988	175.8	115.4	346.3
e	Mexico	1988	157.9	140.4	371.3
	Category B				
f	India	1987	122.4	64.5	115.3
g	Singapore	1988	900.0	600.0	673.8
	Kenya	1987	185.6	178.3	145.6
h	Colombia	1986	167.2	73.7	93.01
i	Ghana	1987	38.9	64.6	238.1
	Yugoslavia	1987	114.7	105.8	256.8
	Costa Rica	1987	352.6	350.2	209.0
	Chile	1988	25.2	56.4	465.8
	Nigeria	1987	210.9	203.0	552.9
	Bolivia	1986	3.5	3.5	378.9
	Côte d'Ivoire	1987	134.8	134.7	1 404.5
	Uruguay	1988	113.5	79.8	363.0
	Peru	1987	123.5	97.3	213.8
	Argentina	1988	153.0	112.7	240.3
	Jamaica	1986	210.9	209.8	1 654.2
	Ecuador	1986	240.0	194.2	163.1
	Category C				
j	Senegal	1987	323.2	323.2	1 591.8
k	Philippines	1987	131.6	103.3	188.3
l	Brazil	1986	159.6	98.6	230.1

Source: Calculated by the author, based on the UNCTAD Handbook of trade measures of developing countries, supplement, 1987.

a/ "Range" divided by means; for tariffs range is derived from the highest figure in the maximum column and the lowest figure in the minimum column of various product groups; for "total changes" and NTMs, it is derived from the maximum and minimum for various product groups.

Table A.3

Percentage change in the national currency vis-à-vis the United States dollar between 1980 and 1987

Groups	Countries	Exchange rates		
		nominal	real	effective
	Category A			
a	Indonesia	- 62.0	- 39.0	n.a.
	Malaysia	- 13.6	- 4.0	- 12.0
	Korea	- 26.0	- 3.0	- 20.0
	Sri Lanka	- 44.0	8.7	n.a.
	Mauritius	- 40.0	- 18.0	n.a.
	Thailand	- 20.4	- 8.0	- 20.0
	Pakistan	- 43.0	- 14.0	- 30.0
b	Turkey	- 91.0	- 26.0	- 38.0
c	Venezuela	- 70.0	- 37.0	- 46.0
d	Morocco	- 53.0	- 26.0	- 32.0
e	Mexico	- 98.0	- 32.0	- 44.0
	Category B			
f	India	- 39.0	- 2.0	n.a.
g	Bangladesh	- 50.0	- 7.1	n.a.
	Singapore	2.0	3.0	n.a.
	Kenya	- 55.0	- 19.0	- 21.0
h	Colombia	- 80.0	- 32.0	- 39.0
i	Ghana	- 98.00	- 75.0	- 77.0
	Yugoslavia	- 97.0	- 15.5	n.a.
	Costa Rica	- 86.0	- 31.0	- 34.0
	Chile	- 82.0	- 42.0	- 46.0
	Nigeria	- 86.0	- 67.0	- 71.0
	Bolivia	a/	- 7.0	- 21.0
	Côte d'Ivoire	- 30.0	- 9.0	- 8.0
	Uruguay	- 96.0	- 35.0	- 36.0
	Peru	- 98.0 b/	- 65.0	n.a.
	Argentina	- 51.0 b/	- 64.0	n.a.
	Jamaica	- 68.0	- 25.0	- 32.0
	Ecuador	- 85.0	- 31.0	- 45.0
	Sierra Leone	- 97.0	5.0	8.0
	Category C			
j	Senegal	- 30.0	9.6	n.a.
k	Philippines	- 73.0	- 15.0	- 30.0
l	Brazil	- 99.0	- 4.0	- 5.0

Sources: UNCTAD secretariat, based on IMF sources.

a/ Difficult to measure, but extremely high.
b/ 1980-1986.